

The Impact of Public Policy on Entrepreneurship: A Critical Investigation of the Protestant Ethic on a Divided Island Jurisdiction

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ABSTRACT. The island of St. Martin is the world's smallest shared jurisdiction. For around 350 years, 37 square miles (92km²) have been divided into two legal entities, Dutch Sint Maarten and French Saint Martin, each with its separate sub-national government and its respective business policies. This situation carries the hallmarks of an almost controlled experiment on the impact of 'The Protestant Ethic', with each nation's respective policy being the treatment variable under study. Keeping other variables constant, government policy is the key variable analysed in the framework of two examined theoretical models.

SOMMAIRE. L'île de Saint-Martin est la plus petite juridiction divisée du monde. Depuis environ 350 ans, ses 37 miles carrés (92 km²) constituent deux entités légales, le Sint Martin hollandais et le Saint-Martin français, qui ont chacune leur gouvernement sous-national avec ses politiques d'entreprises spécifiques. Cette situation porte la marque d'une expérience presque contrôlée sur l'impact de la morale protestante : les politiques respectives des deux nations y jouent le rôle de variables de traitement. Les autres variables étant gardées constantes, la politique gouvernementale constitue la variable clé analysée dans le cadre de deux modèles théoriques à l'étude.

Introduction: Basic Comparisons and Contrasts on a Divided Island

The world is full of islands; but only very rarely are islands divided between different jurisdictions: it is as if to prove that geographic boundedness is naturally meant to be run as a single administrative unit. In fact, there are currently only 11 cases of islands where bounded geography must share political fragmentation amongst two or three sovereign state jurisdictions. They include Borneo, Sebatik Island (off Borneo), Cuba (if one counts Guantánamo Bay as a distinct, though anomalous, jurisdiction), Cyprus, Usedom/Uznam, Hispaniola, Ireland, New Guinea, Timor, Isla Grande de Tierra del Fuego and Saint-Martin/Sint Maarten (Royle, 2001: 150–51). These islands offer interesting and rare opportunities to undertake comparative analysis of salient features, when many other intervening variables can be plausibly considered to be held constant. A relevant and recent example of such a methodology is Diamond (2005), who undertakes an insightful critique of differential environmental policy and its effects on Hispaniola, comparing and contrasting the policies of governments on Haiti with those of the adjoining Dominican Republic.

Saint Martin/Sint Maarten (henceforth SM) is the smallest of these island mavericks, and has been formally partitioned since 1648: the world's smallest land mass ever to be shared by two separate governments, each of which operates in a shifting, often tense, sub-national relationship with a much larger, remote and ultimately benign European

Table 1. Basic Data for Dutch Sint Maarten and French Saint Martin

Dutch Sint Maarten	French Saint Martin
Population (1997): 38,876	Population (1999): 29,888
Live Births (1997): 610	Live Births (1999): 745
Deaths (1997): 101	Deaths (1999): 103
Marriages (1997): 329	Marriages (1999): 124
Main language spoken: English	Main language spoken: French
Official language: Dutch	Official language: French
Main trading currency: US\$	Main trading currency: €
Official currency: Dutch Antilles Guilder (NAF)	Official currency: €
Capital: Philipsburg	Capital: Marigot
Chief Trading Country: USA	Chief Trading Country: France
Source: www.internationalspecialreports.com/archives/00/stmaarten/7.html .	



state. Dutch Sint Maarten (DSM) is, since 1954, a component of a now disintegrating 5-island Netherlands Antilles, itself a partner in the Kingdom of the Netherlands, whereas French Saint Martin (FSM) is a municipality and sub-prefecture (along with 7 other islands) of Guadeloupe, which has been, since 1946, a fully-fledged *département d'outre mer* of France (see Table 1).

Yet these different jurisdictional structures deflect from the fact that the inhabitants of “S’Maat’n” are one people. They speak a dialect of English which is little different from that spoken on nearby Anguilla, Saba and Sint Eustatius. They also share many surnames such as Arnell, Baly, Carty, Fleming and Gumbs. The common use of English, and the ties of families and friendships make for one community of islands. Direct-dial telephones make for easy and effective communication (Kersell, 1993).

Influences of the Protestant Ethic

“American business sometimes thinks that ... it is dangerous to have the government in business. In France ... business wants government intervention in the business sector for the purpose of keeping potential danger out” (Dana, 1988a: 126).

When Max Weber postulated his *Protestant Ethic* thesis, one of his basic aims was to overturn the Marxist claim that it was the economic infrastructure which not just inspired but *moulded* people’s social consciousness (Weber, 1905/1956). In contrast, Weber argued that economic history has various examples of how, in sharp contrast, it was practice and belief that inspired economic behaviour. The Protestantism sweeping across most of Northern Europe, with its extolling of virtue arising from business success and profit maximisation, helped to legitimate capitalism. Moreover, it led to an interesting

split in European cultures which today still pervades many areas of religious, social and economic life. Thus, while primarily Catholic countries in Europe—like Belgium, France, Italy or Spain—protect workers from being fired, the primarily Protestant nations of Scandinavia and the Netherlands have weak job protection laws (e.g. *The Economist*, 2005).

Of course, it would be nothing less than a caricature to explain European labour law differences as arising simply from a religious practice that may hardly resonate today in a largely secularised Europe. Moreover, isolating any “Protestant Ethic” effect is difficult, since each country would have its own cultural and historical baggage, raft of legislation, specific labour retention programs, plus the decisions of political elites and implementation record of bureaucrats. Yet, SM provides as close a “controlled experiment” as possible to singling out the differential attitude of France and the Netherlands to entrepreneurship, business promotion and the role of the state in facilitating employment and business development.

Over the past century, each of the two groups on SM has been exposed to a different set of conditions, each corresponding to one of two general models. The *burgers* of DSM have been exposed to a fairly lax and liberal approach by their governments in their attempt to reduce state regulation and encourage small business start-ups. Across the tenuous and fairly porous border, the *citoyens* of FSM have been exposed to a policy of fairly heavy regulation. This has resulted in significant differences in the environment for small business and entrepreneurship. In this study, a causal relationship is identified. Following an analysis for external validity, findings support the hypothesis that heavy business regulation hinders entrepreneurship while a limited environmental approach facilitates entrepreneurial behaviour.

A couple of qualifiers are in order here. First, we are *not* ascribing a direct and simple uni-causal relationship between religious beliefs and business practices and cultures. Religious practice in both France and the Netherlands, as in other European countries, is much reduced today and many are those who are formally or functionally unaffiliated to any church. However, the pro-business culture of the Netherlands was already very strong when the Seven Provinces eventually built an international empire based on trade; yet it found a natural ally in the precepts of the protestant religion, which regarded business success as an indicator of goodness and possibly eternal salvation. (Moreover, the Dutch exported *Catholicism*—and not Dutch Reformed Protestantism—to the Dutch Antilles, since they felt that they should not share the same religion as their wards.) Meanwhile, as the prototype “nation state,” France has maintained a strong and protectionist role for its government as a national champion, a mediatory role that has also been historically fulfilled in parallel by the Catholic Church. Thus, in both these countries, religion is both a cause and an effect of behavioural patterns that may themselves have historical, political or economic antecedents. Second, the role of the state in relation to business practice in these two countries need *not* be the same role that the state plays in other areas of public life. Indeed, in Northern Europe, there is a high sense of government penetration in private lives (as in a highly protective and comprehensive social system). Citizens are generally disposed to accept high taxes to guarantee a strong welfare state.

Methodology

Due to the lack of reliable secondary sources in rapidly developing nations, on-site investigation and verification is often required. Consequently, this study involved three data collection techniques, undertaken mainly by one of the co-authors (Dana): (1)

preliminary research involving secondary sources, particularly articles and validated internet sources; (2) information search by telephone; and (3) field research based on interviews with government officials, Chamber of Commerce representatives and entrepreneurs from both DSM and FSM. An ethnographic approach was used with triangulation techniques in order to verify information with independent sources. The paper is also based on previous research published by one of the authors (Dana, 1990).

In Philipsburg, capital of DSM, the Sint Maarten Department of Business Licenses and the Chamber of Commerce and Industry of the Dutch Windward Islands were most helpful. Given that FSM is a sub-prefecture of Guadeloupe, an official from the regional government in Basse-Terre, Guadeloupe, was also interviewed extensively on several occasions. Interviews in DSM were conducted in English. Those in FSM and Guadeloupe were conducted in French and subsequently translated by the co-author (Dana).

The *CIA World FactBook* estimates a GDP per capita (corrected for purchasing power parity) for the Netherlands Antilles as a whole of US \$11,400 in 2003; the equivalent figure for the whole of Guadeloupe is US \$7,900 (CIA, 2005). Unfortunately, reliable and updated GDP figures for both DSM and FSM have not been forthcoming. This, in itself, is a reflection of the much tighter policy of centralisation in the French state, which makes island specific data harder to obtain, in contrast to more internal autonomy within the Dutch system. Such comparative quantifiable data would have been helpful for the sake of comparison. This qualitative, exploratory study, using soft concepts and measures, can therefore hopefully only serve as a basis for more definitive and empirical research.

Models

Karl Polanyi (1944) long ago identified the different logic of states and markets: the purpose of state policy is to influence, control or regulate what would otherwise not always be free and unencumbered market transactions since individual or organised actors may abuse, or be abused by, those in dominant positions. This is all the more likely in small jurisdictions where the competitive element is naturally restricted because of small size and difficulty of market access by external players; in such situations, commercial operations tend easily towards natural monopolies (e.g. Armstrong et al., 1993).

Espoused before Polanyi, and going back to Adam Smith, is the idea that markets are themselves institutions: "Like public agencies, markets exist only within a certain organizational framework, and variation in that framework can profoundly affect their operation" (Hall, 1986). Thus public policy is one instrument available to governments to affect the operation of markets.

One can identify two broad models, or extreme positions, to which government policies with respect to markets belong:

Model I: Regulation for Protection: Rules are established to protect existing businesses and consumers at large, even if some hinder entrepreneurial behaviour. There may be high entry costs, exasperating bureaucratic procedures, complex and numerous compliance regulations (including hygiene, occupational safety, building standards, high levels of corporate taxation and minimum wages for staff).

Model II: Protection from Regulation: A policy of minimal intervention and minimal regulation allows entrepreneurs to dedicate more resources to their enterprises, protecting them from the burden of excessive paperwork requirements and the constraints of heavy regulations, but in turn resulting in larger attrition and turnover rates of firms.

This paper contrasts both models, and evaluates their results in a setting where other independent variables can be plausibly considered to have been kept constant over a

Table 2: The Research Design for this Study

	Contextual Variables	Intervening Variable
French St Martin	common to both	government policy with respect to business practice (Regulation for Protection)
Dutch Sint Maarten	common to both	government policy with respect to business practice (Protection from Regulation)

substantial period. FSM is used as the control group where entrepreneurs operate in a Model I policy context. The treatment group, that is DFM, is protected from regulation by a Model II policy where the local state ensures a proper tax climate and positive stimulation of economic conditions with minimal regulation.

Keeping other variables constant (such as geography, history, culture, insularity, climate, soil fertility, vegetation, elevation and population density), facilitated by a very fluid border between DSM and FSM, *government policy with respect to business practice*, restricted to its respective jurisdiction, is the key variable analysed in the framework of two examined theoretical models (See Table 2).

Peterson and Peterson (1981) found that government paperwork requirements are a burden on managerial time of owner-managers. Thus, a reduction of such time-consuming regulation may be said to promote a more entrepreneurial environment. Is this argument borne out by the evidence? A comparison of the control group and the treatment group reveals countless new ventures and a thriving entrepreneurial environment under Model II policy in Sint Maarten, in contrast to much less economic activity in Saint Martin under Model I policy. Therefore, this study suggests that, while keeping other variables constant, limiting government intervention to ensuring a proper tax climate and positive stimulation of economic conditions, that which Peterson and Ainslie (1988) describe as a limited environmental approach (a Model II approach), does yield an environment more conducive to entrepreneurship.

The Environment for Entrepreneurship

“The rich and the famous of the world honeymoon on Anguilla, winter in their mansions on French Saint Martin, shop and gamble away their wealth on Dutch Sint Maarten” (Kersell, 1993: 1).

Nafziger (1971) was among the many to note the shift of emphasis in economic development theory, away from the growth of financial capital to human capital, inclusive of entrepreneurs engaging in entrepreneurial activity. Among the environmental factors that powerfully condition the ease and scope of entrepreneurial activity, are government, laws, regulations and procedures (Staley and Morse, 1971). Government policy, in turn, reflects attitude. Attitude, according to Kunkel (1965), may be defined as persistent, general orientation, a state of readiness, exerting a directive or dynamic influence.

A government may perceive entrepreneurship as: (i) having a high social value worthwhile of being encouraged; or (ii) an unnecessary or neutral activity which does not require specific policy; or (iii) an activity undertaken by actors who are not *bona fide* and whose motives are suspect. Policy would then tend towards being a reflection of such an attitude; and a government may decide to intervene (through regulations, paperwork requirements, subsidies or trade agreements) or not to intervene, such that its values affect economic development.

It was Weber's (1905/1956) thesis that first proposed a causal link between entrepreneurship and cultural values such as frugality, deferred gratification and asceticism. Thus, culture came to be the explanatory variable, which resulted in entrepreneurship being more prevalent among some cultures than among others. Considerable empirical research confirmed that some groups were somehow culturally predisposed to engage in entrepreneurial activity, while other cultures tended to refrain from new venture creation.

Hofstede (1980) demonstrated how people's attitudes towards work are culturally influenced. Boissevain and Grotenberg (1987), Jenkins (1984), Min and Jaret (1985), Reeves and Ward (1984), Shapero (1984), Shapero and Sokol (1982), and Ward (1987), among others, noted that some cultures value entrepreneurship more than do others. Depending on whether a government values entrepreneurship or not, public policy may increase or decrease the attractiveness of entrepreneurial opportunity.

Although Schumpeter (1934) suggested that entrepreneurship results in an improved standard of living for a society, governments around the world have historically given little if any support to entrepreneurs, especially those involved in small- and medium-sized operations. Entrepreneurial behaviour was often limited to those locations whose citizens held values predisposing them to engage in such activity. No effort was made to increase entrepreneurship; on the contrary, up to the late 1970s, many nations preferred instead to encourage mergers of existing firms into larger units (Strinati, 1982). Scase (1980) noted that the trend was to evolve away from small independent businesses, as governments believed instead that a measure to facilitate economic growth would be to encourage a close partnership between existing large firms in the private sector and state agencies.

More recently, the trend has been reversed; and the state has started to recognise the usefulness of entrepreneurs, a healthy small business sector, and an environment fostering entrepreneurship and conducive to small business. As demonstrated by Rainnie and Scott (1986), entrepreneurship has become increasingly recognised as a means of improving output and, as discussed by Scase and Goffee (1987), public policy has largely shifted from discouraging to encouraging independent business. Particularly among more industrialised nations, entrepreneurship has been recognised as being in the national interest, making important contributions to industrialised expansion and job creation. Examples include Australia (Dana, 1988b), France (Pache, 1996), Britain (Gibb, 1986–87), the Netherlands (Boissevain and Grotenbreg, 1987; Bijmolt and Zwart, 1994), New Zealand (Ghosh and Taylor, 1995), Northern Ireland (Hisrich, 1988; Jenkins, 1984), Norway (Weaver, Berkowitz and Davies, 1998), Japan (Morita and Oliga, 1991), Sweden (Johannisson, 1987), and the United States (Dana, 1995a). Interest in entrepreneurship has also been on the rise in island economies, including Malta (Briguglio, 1998); Papua-New Guinea (Ojuka-Onedo, 1996); and Samoa (Fairbairn, 1988; Fairbairn, this volume).

Two Business Environments, One Island

To many Europeans and North Americans, the island of St. Martin means baking in the sun on the miles of pristine white sand. For social scientists, the island is an ideal yet under-explored setting for research where one side can serve as the control group for an experiment while the other side can serve as the treatment group.

To American Navy buffs, the Dutch West Indies of the Lesser Antilles are significant, because it was there, in the Caribbean Sea, that the flag of a US warship received its first foreign salute, on November 16, 1776. To cruise ship passengers, the Netherlands Antilles are of particular interest because of duty-free bargains specifically in Dutch Sint Maarten.

FSM comprises 21 square miles; its official capital is Marigot on the island, but the administrative centre is Basse-Terre, on the island of Guadeloupe. Saint Martin's president is that of France. Complete autonomy from France is not envisioned, and self-determination appears to be locked with a process of deeper integration with the metropole.

DSM embraces just 16 square miles; its capital is Philipsburg. The government has a Netherlands Antilles constitution. Sint Maarten, as part of the Netherlands Antilles, has been self-governing since 1954; the Netherlands Antilles has equal political status with the Netherlands, as does Aruba since 1986, in the union known as the Kingdom of the Netherlands.

The most striking difference between the two sectors of the island is that, whereas FSM is largely rural and agricultural, DSM has a thriving business community with a sophisticated entrepreneurial activity.

Over three decades ago, the assistant editor of *National Geographic*, James Cerruti, reported that "Sint Maarten alone ... has achieved full employment. Indeed Sint Maarten also employs about a thousand workers from French Saint Martin and British Anguilla (1970: 142)." Today, Sint Maarten also provides jobs to numerous workers from the Dominican Republic and elsewhere. Sint Maarten has maintained prolonged economic prosperity at a time when some of its Caribbean neighbours are battling economic malaise.

Control Group: Saint Martin under Model I Policy

The French side of the island, FSM, seems to have inherited an abundance of regulations from its mother country. FSM is a sub-prefecture of Guadeloupe, which in turn is an overseas department of France. In contrast to DSM, which is largely self-governing, Saint Martin sends two elected senators to the senate in France. Legislative reform tends to be slow, with decision-makers being physically far from the area they govern and not necessarily always aware and sensitive to local needs and their pressing nature. Rules are made in France, but must be obeyed in FSM. Some prices, as well as wages, are regulated. A new venture in FSM must include local participation. In contrast to DSM where local participation in a new venture is not a legal requirement, such regulation in FSM may deter business start-ups and foreign investment by entrepreneurs from abroad.

With reference to foreigners visiting or doing business in FSM, regulations stipulate that, for stays of 21 days or more, proof of departure (such as an aeroplane ticket) is required, as well as proof of citizenship which must be in the form of a valid passport. To enter DSM, an expired passport or any other proof of citizenship is sufficient. This procedure, or lack of, has not changed much since the widespread tightening of security since 9/11. What makes this difference in regulation redundant is that there is no physical barrier, nor border checkpoints between FSM and DSM. Yet, the French legal system prevails in the French half of the island, fraught with more prohibitions than allowances, and few business incentives.

Model I policy in FSM also reinforces some Gallic business practices: whereas the presence of a lawyer at contract negotiations is regarded as a practical procedure in the US or in DSM, it is interpreted as a lack of trust in FSM, where personal loyalty comes before business considerations. One prefers to do business with a friend in FSM rather than seek the most efficient working relationship.

Treatment Group: Dutch Sint Maarten under Model II Policy

Model II policy in DSM has resulted in considerably less regulation there than in the

contiguous FSM. Therefore, form is less important an element in doing business than efficiency and pragmatism. According to their French neighbours, business needs the state to keep any dangers at bay; in contrast, the DSM attitude is that it might be dangerous to have the state involved too much in business. Government is viewed in the DSM largely as a facilitator, and not, as in FSM, as primarily a regulator.

An environment of low restriction levels is attractive to entrepreneurs. In DSM, minimal government intervention has helped maintain and cultivate an entrepreneurial spirit. Starting a firm is very easy. A citizen by birth or bearing Dutch nationality does not even require a licence to do business. Incorporation can be done by a lawyer specifically appointed to pass deeds. Only two founders are required; only 20% of the authorised capital must be subscribed for at the time of incorporation; if shares thus issued are registered, only 10% of their par value needs to be paid up. There is no restriction on nationality or residence of shareholders, managing directors or members of the board. The cumulative result is that DSM has a very healthy and growing small-business sector as entrepreneurs create new ventures. This provides numerous jobs, explaining why unemployment in Sint Maarten has been nil during recent years, especially impressive in the Caribbean where other islands were suffering economic malaise during a prolonged recession.

DSM has no exchange control on currencies imported or exported. Bank accounts may be opened in any currency, or even in troy ounces of gold. The Bank Van De Nederlandse Antillen has been in business since 1928; the ABN Algemene Bank Nederlandse NV since 1919. Other banks include Barclays Bank PLC (Banco Barclays Antiliano NV), Chase Manhattan, Citco Bank Antilles, Nederlandse Credietbank, the Bank of Nova Scotia and the Windward Islands Bank.

The Netherlands Antilles government is actively helping perpetuate an entrepreneurial spirit through specific new venture programs, in addition to maintaining low taxes and no import duties. Programs include tax holidays and benefits such as no withholding tax on dividends or interest paid by a Netherlands Antilles corporation. Specifically, qualifying new investments get exemptions from all taxes on profits for ten years, as well as exemption from property tax. New industries involving at least NAF 50,000 (US \$28,000) are exempt from profit tax, as well as income tax on proceeds from an enterprise, and on proceeds from distribution of profits (Öostindie and Klinkers, 2003, *passim*).

To prevent double taxation, the Netherlands Antilles has concluded tax treaties with the US, the UK, Denmark, Norway and the Netherlands. Through establishing subsidiaries in Netherlands, a company in Sint Maarten may also benefit from tax treaties with Austria, Belgium, Canada, the Czech Republic, Finland, France, Germany, Hungary, Indonesia, Ireland, Israel, Italy, Luxembourg, Malawi, Malta, Singapore, Slovakia, South Africa, Spain, Japan, Surinam, Sweden, Switzerland and Thailand. In some cases, the government will grant monopoly status to protect a new industry. The government is also willing to finance certain entrepreneurial initiatives. The result of all the above is numerous businesses in a healthy economy with market competition.

To boost the tourism industry and to facilitate international business, DSM opened its Juliana International airport (SXM) in 1950. Today its 2,000-metre runway accommodates daily flights overseas, to 24 destinations in the Caribbean, US and Europe (www.pjiaa.com/destinations.html). In 1999, 1.6 million passengers used SXM and there were 78 daily schedule and charter flights (www.internationalreports.com/archives/00/stmaarten/7a.html). Airlines serving DSM include ALM, Air France, Air Guadeloupe, Air St. Barthelemy, American Airlines, KLM, Leeward Island Air Transport (LIAT), Trans

World (TWA) and Windward Island Airways. Until their demise, both Eastern Airlines and Pan Am served DSM. In contrast, Espérance Airport (SFG) on the French side is tiny and deserted. It provides services for small planes and inter-island flights.

To further enhance tourism, five casinos have been opened in DSM. To gain more appeal with Americans, the government has pegged its currency to the US dollar, eliminating fluctuations. To facilitate trade, DSM uses the same currency as the islands of Bonaire, Curacao, Saba and Sint Eustatius.

The absence of customs formalities makes DSM a veritable free port, making the island a trans-shipping centre for business trading with other Caribbean islands. Furthermore, the high import duties of neighbouring islands are often reduced for freight arriving via DSM, and the result has been the creation of numerous import/export operations.

Analysis

Dutch Sint Maartin, according to McElroy (2003: 236), is the world's most heavily penetrated tourism location, located in the world's most heavily penetrated tourist region. It has a thriving business community with relatively sophisticated entrepreneurial activity. In contrast, FSM is more laid back, largely rural and agricultural. Correlation of policy model with economic activity suggests a causal relationship. Internal validity is established in the case of this FSM/DSM, Model I/Model II study. Co-variation between the presumed cause and effect has been demonstrated; there is temporal precedence of the cause; and there is no apparent alternative interpretation for the cause and effect relation. Internal validity is established, as Model II policy among the treatment group has yielded an environment more conducive to entrepreneurship than possible under Model I policy in the control group. While the control group suffers from unemployment, the treatment group cannot satisfy the demand for employees; furthermore, the control group is largely rural and agricultural while the treatment group is mostly involved in service industries.

Conclusion

"The Netherlands is ranked as the 24th country for the ease of doing business there; France, the 44th" (World Bank, 2005: 3).

The on-line business directory for DSM/FSM lists 61 business operations, all being service-oriented: 18 operate from FSM; 42 operate from DSM; and one operates from both (www.StMaarten.org).

Two models of state-market relations have been examined: that of FSM where regulation is meant for protection, and that of the treatment group, DSM, where the government is more actively supportive of new ventures, along with minimal regulation. In contrast to the situation within the control group, the treatment (Model II policy) has maintained a healthy, growing, private business sector in DSM. The citizens of FSM may feel that their economy is lagging behind, and that the private sector is somewhat stifled: the unemployment rate in the whole prefecture of Guadeloupe was 26.1% in 2000 (Eurisles, 2002: 75) and 35% of all employees were employed in the public service (ibid.: 40). Unemployment in DSM was reported as 12.9% in 2000 and the public sector's contribution to GDP was just 11%. Meanwhile, rather than encourage economic advancement, FSM levies a tax on personal assets. So it is no wonder that many from the FSM go to DSM to work, legally or otherwise. The DSM's Department of Business Licenses is aware of such practices, but tolerates them as its economy is growing so rapidly its own local labour force cannot keep up with demand.

This is not meant to paint too rosy a picture about DSM. In the 1990s, investigations

were started following allegations of connections between the DSM government and the Italian Mafia. In 1993, the Dutch government directly intervened on DSM and temporarily took over the government, an extreme measure felt necessary because of alleged corruption and government malpractices. Moreover, the state's investments in public infrastructure—including schools, roads, health and utilities—lag behind population growth. One particular (French) observer does not mince his words:

[Dutch] Sint Maarten ... [a territory] with disaster written all over it, with its mafia barons, gambling racket, and crowds in access of one million tourists a year channeled through a large international airport. (Doumenge, 1998: 341)

S'Maat'ners live on the same tiny island, and share a common heritage. Their ancestors were both imported from the slave-exporting territories of West Africa in the 16th century. So it may be "The Protestant Ethic," and its legacy, that is the main differentiator between the two halves. Model II policy has made entrepreneurial ideology prevalent in DSM but less so in FSM where Model I type policy prevails. The people in the control group are visibly more preoccupied with *joie de vivre* than with making money. Moreover, apart from the "pull" factors of public policy, there may be differential "push" factors also at play: a weaker benefit system for the unemployed in DSM may act to incentivize even more the resort to entrepreneurship, while a more generous welfare system makes the opportunity cost of starting one's own business less of an enticing prospect in FSM.

Some entrepreneurial spirit may be filtering across the border by osmosis: the infrastructure and regulatory environment of FSM under Model I-type policy is such that its entrepreneurs may find it more attractive to emigrate (to a Model II environment) than to operate their business in a location which hinders entrepreneurial activity. Indeed, following a referendum in 2003, the citizens of FSM have voted overwhelmingly in favour of adopting more locale specific, and more liberal, tax and immigration policies. FSM is now effectively almost a separate *territoire d'outre mer* (TOM): the practices of its Dutch neighbour are partly to blame for this (Mrgudovic, 2005: 80).

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